



In the Loop Realty Newsletter

March I, 2009 Issue

Amerival

Your One Stop
Appraisal Center for
Real Estate
Businesses
Personality

DO WE EVER HEAR THE TRUTH???

BY: Albert M. Cerone, IFAS, FELLOW

JUST THE BEGINNING?-

An article appeared in the London Financial Times which as much as Europe is more inclined to report actual facts and positions without political interference. The author of the article is Eric Uhlfelder, Credit Suisse asserts that there about \$1 trillion n Alt-A and option payment mortgages which will be reset in the next 30 months. These resets can be as damaging as the sub-prime has been.

It is estimated that there are about 3 million Alt-A loans outstanding valued at about \$1 trillion with FNMA holding 30 % of them or \$300 billion.

Whitney Tilson, a partner inT2 Partners, an asset management firm, reported the reset rates will likely accelerate default rates thus further flooding the housing market which will create greater downward pressure on home prices. If this occurs the bottom of the market will yet to be reached. He projects a 50% default rate in both option ARM and Alt-A loans.

In turn this will spill over into the securities market.

A Rowe Price spokesperson estimates a possible \$800 billion in securities will be at risk with pricing down to pennies on the dollar.

Is there a solution? The lenders and / or government could ban any resets which would preclude the problem The question arises that the lenders would be precluded from earning further interest as the resets would be at substantially higher rates.

The retort to that is they borrowed the lending funds from the investment market and lent the monies at a higher rate than their costs, so.. no foul, no loss. Only the fear of the politicians of repercussions from the lending and banking industries and the eventual loss of campaign funding will stop this. Let's see what happens. The public can't rectify the problem until the next election of their representatives.

HOUSING PLAN- At this point I 'm not sure if even O'Bama knows what's in the Stimulus package. We don't!

In no way is this writing meant to 'dump' on O'Bama. We all better hope he really can lead us out of this financial quagmire. The Housing Plan is offers per his speech on February 24th is meant to help those property owners who are in trouble and facing foreclosure. He stated that this plan will not help those who knew they were going in over their heads on the value of the houses they were purchasing and would not help speculators burned by the financial crash. The problem is how do you separate the 'deserving' from the 'undeserving'. One can only presume that there will be no relief for those who purchased second homes or vacation homes. Well, I guess in a way they wouldn't be deserving from the standpoint that they still have a roof over their families' heads. Of course, it could have taken savings and the mortgage payments no longer are affordable and they'll lose their primary residence

also. The clear problem is how do you determine the distinction between those knowing they were doing wrong and those who were duped? You can bet that many who damned well knew they were buying more than they could afford will also receive help. If the plan requires they prove they were innocent of greed, etc., that will likely take longer than the foreclosure. Don't be shocked if very few families are really helped.

The FDIC suggests that aid will likely be withheld from those who overstated their income and / or assets. Lots of luck, going through that maze! It's like creating a forensic analysis for each case.

Instituting this Housing Plan will be nightmarish and create greater Fed spending and debt.

Courtesy of

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FACT OR HYPE?-

Health Insurance Stats- O'Bara stated that since 2000 1 million Americans lost health insurance each year. NOPE! He'd be right if he said on the average, because the statistics firstly were only compiled from 2000 through 2007. And in 2007 those Americans without health insurance dropped by 1.3 million .

Renewable Energy-

O'Bara stated that his recovery plan will double the nation's supply of renewable energy. According to the Dept. of Energy, in 2007 8.4% of renewable energy was created and that will rise to 12.5% over the next 2 decades. There had better be a lot of dams, windmills and hydroelectric plants constructed in 3 years. Congress can't decide on lunch that quickly let alone get bids, plans, approvals and the like through their maze of 'feed me first' Mommy, paperwork.

Let's be honest, O'Bara's speech was rife with subjective conclusions, impractical broad brush solutions and "feel good" rhetoric for fan appeal only. But let's not blame him. We're all too smart to believe he wrote that speech and the info it contained was not his research.... Hell, the Stimulus isn't even his. His minions and long time Washingtonian hacks advising him put that together. They made the spitballs and he threw them. The Stimulus is so complex that the truth of its success will be pure spec-

-ulation.

NEW HOME SALES- The housing problems continue. In January new home sales dropped again to a new annualized rate of 309,000 units reflecting a 10.2 percent fall. This is the lowest since 1963. The housing inventory is now at 13.3 months. However, you see. As we've said many times, don't get overly paranoid. Because the Northeast actually saw a rise in sales in January. Again, it's so easy to be duped into thinking the worst. We are better off here than in so many of the really devastated locales in the US.

EXISTING HOME SALES- January sales for the Northeast were down 21.3% from a year ago.

NEW YORK CITY CONDOS- The NYC condo market was strong until the 2d Qtr. Of 2008. What with the crisis on wall street and the other negative influences, the developers are sitting with a high inventory. Many will be auctioning off the vacant units at between 40—50% less than what they would have sold this time last year. It is expected that the existing contract purchasers will be walking away from their deposits which can be upwards of \$100,000.

WE'VE BEEN ON TARGET!- On the following page is the *October 2006 Edition* of this newsletter. Please read it. It virtually predicted all that has and is happening with mortgaging and housing.

TRUTH IS STRANGER THAN FICTION-

One has to wonder just how much faith can the American public have in these institutions? The following two cartoons are supposed to be funny and are anything but. 20 years ago this cartoon would be something to laugh about. Today it's something for which so many can cry.



The difference between Capitalism and Socialism is the former provides an economic system in which wealth, and the means of producing it are privately owned and initiated rather than by a government. How did such an educated country miss this? And all these years we called the Russians names.





In the Loop Realty Newsletter

October 2, 2006 Issue

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**Your One Stop
Valuation Center**

MORTGAGE PERSON OR BANKER - FRIEND OR FANNIE MAE PUPPET??

By: Albert M. Cerone, IFAS, FELLOW

The last several years have seen sky rocketing real estate prices or values? At best they were temporary values and as the economic downturn now in place continues, that argument of "Price vs Value" will create a din in courtrooms throughout the United States. As Americans, come to grips with mortgages, which come due in 3 - 5 years, securitized by likely their largest single asset, their homes, it's quite likely that their properties may be worth less than the "value" established originally. Lenders are not going to forgive the unpaid amount just because that the property is no longer worth the original stated value. And why should they, because so many of those mortgages will be held by FANNIE MAE, a private stock company since 1968. It's sole purpose is to make profits. The lead wording in their website is "Our Business is the American Dream".

Gives you that warm and fuzzy feeling doesn't it? Well, Americans late with a payment or unable to pay that "Dream Home Mortgage" will suffer a financial death the likes of which was *never dreamed*. But how did this happen?

In order to compete for business the lending industry had to provide the fastest and cheapest means of binding borrowers. Once closed the borrowers are forgotten or at least until they can no longer pay for whatever reason.

No, I don't advocate the inception of a "forgive me law". Obligations should be met. However, borrowers were not made aware of the consequences due to a downturn in values or economic changes. The problem is Americans are relying on the lending industry and Fannie Mae to protect them.

Recently Americans were in a home buying and refinancing frenzy. Many refinanced more than once taking more money each time from the *alleged* equity build up. Mortgage products designed to entice the public to mortgage and mortgage some more became available, making it easier and easier. To indebt oneself. 5% and 10% down loans, interest only loans or negative amortization loans (they don't use that term, it's too scary) and 80/20 loans in which one takes a mortgage for 80% of the home value and in the same breathe the "considerate lender" then gives a loan for the remaining unmortgaged 20% of the equity. When mortgages balloon in 3 or 5 years and values are declined, refinancing will require cash investment by the homeowners in order to pay for the loss in values.

If these people had that amount of money in the first place they would not have needed these creative loans. Welcome to the inner sanctum of "Our Business is the American Dream".

What does this mean to attorneys and accountants and to other professionals? There will be foreclosures, negotiated "short sales"; bankruptcies and divorces, as the stress placed on the duped public often results in failed marriages and other unpleasant results ending in legal difficulties.

Monthly Saying

The world recognizes nothing short of performance, because performance is what it needs, and promises are of no use to it.

-Philip G. Hamerton

Courtesy of

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